Congress of the United States
Washington, DC 20515

February 1, 2001

The Honorable Spencer Abraham
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, D.C. 20585

Dear Secretary Abraham:

We are writing you for two reasons. First, we urge you to terminate your Section 202 (C) order requiring the sale of electricity to the California utilities unless such an order is accompanied by a federal or state guarantee of repayment to the seller. Second, we ask that you move to have the Federal Energy Regulatory Commission (FERC) immediately implement throughout the Western United States short term price caps that allow for cost recovery of reasonable costs. With the Administration's acting chair, and its two pending appointments to FERC, such an action is within your ability to accomplish.

Many of our constituents are seeing the price they pay for electricity jump up as much as much as 50% and the increases are continuing with no end in sight. Much of the increase in energy costs can be directly attributed to the fact that two of California's big Investor Owned Utilities, Pacific Gas and Electric (PG&E) and Southern California Edison (SCE), are being forced to purchase all of their power on the spot market. The newly arrived presence of these large buyers in an energy market that the Northwest typically relies on during winter months has terribly distorted this market. Clearly, the long-term solution to this problem will require California to do two things: take steps – including reasonable rate hikes – to shore up the credit worthiness of their PG&E and SCE, and enable PG&E and SCE to enter into long-term contracts, thereby taking them out of the spot market. It is our understanding that the Governor and Legislature of California are finally nearing an agreement on this subject.

This unholy combination of a partial laissez-faire and a partial command-control regulatory situation in California has created an environment which is allowing a few large energy marketers to charge outrageous prices for electricity to Northwest consumers. This absurd situation can only be immediately ameliorated by FERC action implementing a temporary regional cost-based wholesale cap on prices. As you know, FERC has taken this action to help California consumers, while leaving Northwest consumers subject to the whim of a few very large energy marketers. Clearly this is a government created aberration of market conditions that may invite a few companies to "game the system" to their financial advantage. The industries that are reaping hundreds of millions of dollars while our constituents suffer extraordinary price increases did not do so by taking on any new significant risks – these revenues have become available by California's deregulation failure and by FERC's failure to act.

Such a short-term cap need not apply to new generation capacity. Instead, it would act as a circuit breaker on a dysfunctional market, and not as a disincentive to the creation of new generation capacity.

Northwest utilities are now taking the necessary and difficult steps to ensure their financial security by raising the rates on their consumers. Meanwhile in California, CAPUC has refused to allow commensurate rate increases for PG&E and SCE, resulting in these companies teetering on the brink of bankruptcy and possibly threatening the financial stability of many of their lenders. Your recent continuation of Secretary Richardson's order again requires Northwest utilities to send more power to these near insolvent utilities, further exposing Northwest consumers to cover the costs of that energy.

You have indicated that after February 6th you will not continue your Section 202 (C) order. In the strongest of terms, we support your position, and urge you to follow through with that pledge unless a new order is coupled with a federal or state guarantee of repayment to our utilities.

Given the following factors, we are sure you can understand why this situation is untenable to us and our constituents:

- Some of our constituents are seeing their rates rising up to 50%, while CAPUC allows only 9% rate increase
- California's apparent inability to get its utilities out of the spot market
- FERC's refusal to institute temporary cost based wholesale price caps outside of California
- Your continuation of Secretary Richardson's order forcing our utilities to sell power to utilities on the brink of bankruptcy.

Thank you for your attention to this matter. As the Northwest's water supplies which power our hydroelectric generating facilities are draining, and we are facing what could be the driest year on record in the Northwest, we cannot understate the importance of this matter. We hope that we have the opportunity to personally discuss this issue in the near future.

Sincerely,

JAY INSLEE
Member of Congress

JIM MCDERMOTT
Member of Congress

PETER DEFZIO
Member of Congress

ADAM SMITH
Member of Congress

DAVID WU
Member of Congress